

TOP SECRET

21 September 1951

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CENTRAL INTELLIGENCE AGENCY

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***Army and State Dept reviews
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TOP SECRET

TOP SECRET

SECTION 1 (SOVIET)

1. USSR. Soviet Ambassador to Iran is leaving for talks in Moscow: Sadchikov, Soviet Ambassador in Iran, is leaving Teheran on Saturday for talks in Moscow, according to an Iranian Government spokesman. It was also announced that Soviet trade talks with Iran will commence Saturday, at which time the USSR will present plans for a "greatly enlarged" barter agreement. (U, AP, 20 Sep 51; U, UP, 19 Sep 51)

Comment: The Soviet-Iranian trade agreement was drawn up in November 1951 for a period of one year, and apparently both countries see advantages in renewing it. The USSR has supplied only 20 percent of the sugar promised Iran under the agreement. Nevertheless, due to Iran's growing economic difficulties, the USSR could gain propaganda advantages by announcing expanded trade terms this year. Sadchikov's visit to Moscow, meanwhile, may well involve Soviet talks on future policy regarding the Iranian crisis.

2. BULGARIA. Soviet aid outstrips weather: In a speech for the opening of the month of Soviet-Bulgarian friendship, Todor Pavlov, Chairman of the Bulgarian Academy of Science, stated, "This year the crop has been exceptionally bountiful. This, however, is not due to the rainfall, but to Soviet assistance ..." (R, FBIS, 19 Sep 51)

Comment: This is in striking contrast to Bulgarian propaganda excuses for the delay in the 1950 fall sowing program, which placed full blame for early failures to meet schedules on lack of rain. The party line abruptly returned to giving full credit to Soviet assistance when timely rainfall permitted successful conclusion of the sowing program.

3. CZECHOSLOVAKIA. Czech capabilities to transport Iranian oil may be investigated by Iran Government: Premier Mossadeq has issued a memo directing an investigation of Czech capabilities to provide tankers to transport Iranian oil. [REDACTED] the Czechs have offered to purchase 100,000 tons of crude oil on the conditions that the contract be signed prior to the expiration of the two-week ultimatum to Britain, and that the Iranian Government agree to allow Czech technicians to supervise the execution of the agreement. [REDACTED]

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Comment: Earlier in the month it was announced that Czechoslovakia and Poland had bid for purchase of 1,200,000 tons of Iranian oil. It is likely that Mossadeq could be considering an investigation

TOP SECRET

TOP SECRET

into the practical aspects of these offers and the possibility of thus putting pressure on the UK. At present Czechoslovakia has two small tankers under charter. Poland has recently purchased a third tanker, has two more under charter, and is rumored to be negotiating in London for the charter of several Panamanian tankers. Those tankers operate in the Baltic area, and could presumably be shifted to Abadan. [redacted]

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[redacted] the 6487 GRT Polish tanker Karpathy 25X1C will soon sail for the Suez area to serve as a fueling ship for Far East traffic.

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4. FINLAND. Serious fuel shortage developing: The shutdown of the Abadan refinery in Iran will cause a serious shortage of fuel oil in Finland, according to [redacted] the US Legation in Helsinki [redacted]

[redacted] The effect of the shortage will be felt in Finnish industries such as pulp, paper, glass, and metal working, and in residential heating. 25X1

The legation reports that almost all furnaces can be converted readily to coal or coke, but that the supply of coal is short and that coke is being rationed as it is in critical supply. Although the government has granted dollar exchange to petroleum importers for the purchase of fuel oil, the importers have not been able to locate any fuel oil available for purchase. As of the date of this report, the legation reported the problem was not yet acute. (C, Helsinki, Des #136, 14 Aug 51)

Comment: Due to a shortage of forest labor, it is estimated that there will be a firewood shortage of six million cubic meters this coming winter.

5.

POLAND. Government announces hog purchasing program: The recently announced government hog purchasing program for the year beginning 1 September 1951 sets for its goal the purchase of 5,100,000 meat and lard hogs and 1,700,000 bacon hogs. According to the government's announcement, a "general contract system" will be set up and will include all individual hog breeders. In order to gain the peasants' co-operation, the government will

- (a) pay fixed prices 50 percent higher than the prices paid for hogs not covered by contracts,
- (b) grant financial assistance to the peasants participating in the program in the form of interest-free credit,

TOP SECRET

TOP SECRET

- (c) reduce land taxes and the amount of grain required to be delivered under the government's grain purchasing program, and
- (d) offer special coal allotments to peasants participating in the program.

The US Embassy in Warsaw comments that the announcement of this program seems to have two objectives: to try to convince the Polish people that the government is doing something about the current meat shortage, and to devise a program which will prevent a recurrence of the current severe shortage of meat. (C, Warsaw Des #63, 22 Aug 51)

Comment: On the basis of 1950 figures, government-purchased hogs, after slaughter, dressed out at 501,040 tons of meat. The government's planned purchases in 1952 will dress out at approximately 504,600 tons of meat -- a modest increase. The total planned government purchases for 1952 of 6,800,000 hogs will represent approximately two-thirds of expected production. This will tend to limit the success of the program, since it probably will not leave the peasants enough hogs for their own consumption or for selling on the blackmarket. Unless the peasants are beguiled by the financial concessions offered by the government, which will have to deliver on its promises before gaining any kind of peasant cooperation, there will be no peasant cooperation and the plan will very probably fail to reach its goal.

6.

Coal production not believed in excess of demand: According to the US Embassy in Warsaw, Poland is not suffering from an excess of coal production. As evidence of this, the embassy points to the Polish Government's offer of special inducements to recruit coal miners, and to Poland's continued firmness in negotiations regarding coal exports to Western European countries. Finland, Austria, Switzerland, and other countries as well, have found the Poles firm in recent negotiations regarding coal exports. For example, Swiss coal importers are having difficulties negotiating a coal contract under the terms of the recently concluded Swiss-Polish trade agreement and, according to the Swiss Charge in Warsaw, the possibility can not be excluded that the trade agreement may fall through. The Swiss regard the price set on Polish coal as unacceptable.

Comment: It is probably correct that Poland's firmness in regard to the export of its coal to the West indicates no excess coal production. However, the Polish Government also realizes that its coal is an excellent trading commodity with which to bargain for strategic items from Western European countries suffering coal shortages. (C, Warsaw 258, 19 Sep 51)

TOP SECRET

TOP SECRET

SECTION 2 (EASTERN)

1. INDIA. Another cultural delegation allegedly invited to visit the USSR: The Indian press reports that an Indian delegation has been invited to visit the USSR to study Soviet film and theatre arts. (U New Delhi 1043, 19 Sep 51)

Comment: A delegation of second-rate Indian scientists and literary figures visited the USSR this past summer; top-flight Indian personnel invited to take this trip were denied permission by the government to do so. The delegation was exploited by the Soviet propaganda machine during the period of its visit. Its members also furnished pro-Soviet material to the Indian press upon their return home.

2. Delegation to participate in Chinese Communist 1 October celebrations: The Indian press stated that a ten-man Indian delegation was to leave for Communist China on 20 September to participate in the 1 October celebration of the second anniversary of the Chinese People's Republic. (U New Delhi 1046, 19 Sep 51)

Comment: India and Communist China have also agreed to exchange cultural goodwill missions in the near future. It is not yet clear whether the personnel of the two delegations will be identical. It seems obvious, however, that the tempo of Sino-Indian cultural exchanges is increasing. 25X6

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TOP SECRET

TOP SECRET

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5.

US overtures regarding Chinese Nationalist troops in Burma annoy India: A high Indian official has informed [redacted] his government's irritation at the American and British suggestion that India intervene with Burma to forestall an appeal to the UN regarding the presence of armed Chinese Nationalist troops on Burmese soil. Referring to the apparent involvement of American nationals, the official stated, with emphasis, that unless the US and UK showed a more helpful attitude, India could not advise the Burmese against taking the matter to the UN. (S New Delhi 1050, 19 Sep 51)

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Comment: In the absence of restraining Indian influence, the only factors which may cause the Burmese to hesitate to take such action would be a reluctance to admit their inability to police their own territory, and the hope that the demoralized Nationalist force will disintegrate.

6.

INDOCHINA. Bao Dai is less critical of French: During a discussion of various aspects of the Indochina situation with ECA mission chief Robert Blum, Bao Dai was less critical of the French than in the past and seemed committed, although somewhat uneasily, to a policy of "solidarity" with the French during these critical times. Bao Dai stated that he is financing personally a campaign to increase his influence in Viet Minh territory, an operation which he admits would make the French "very angry" if they should learn of it. (S Saigon 650, 18 Sep 51)

Comment: This interview, like earlier ones with US officials, indicates Bao Dai's confused approach to the matter of solidarity with the French--a confusion which limits his effectiveness as Chief of State.

7.

Viet Minh concentration in western Tonkin: The US Consul in Hanoi reports that some action is "in the air" in the vicinity of Nghia Lo, one of three French strong points in the Thai minority territory. A Viet Minh regiment and French airborne units appear to be converging on this point. (TS Hanoi 163, 19 Sep 51)

Comment: Viet Minh action in this area would be for the purpose of harassing or diverting French forces from the more critical delta area.

8.

CHINA. Most Manchurian railways reported closed to commercial traffic: The pressure of military traffic in Manchuria has caused Peiping authorities

TOP SECRET

TOP SECRET

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to suspend for an indefinite period all passenger and commercial freight service on most of the Manchurian railway net as well as on Manchuria's only rail link with China proper, the Peiping-Mukden line, according to [redacted]

Comment: The Peiping Railway Bureau last week reportedly requisitioned for military use all freight cars in the Peiping-Tientsin area. These reports have not been confirmed, but are significant if true since the last similar diversion of rail traffic to military use was in the period from September to November 1950, when the Chinese intervened in Korea.

Interruptions to rail traffic caused by floods in the Mukden area during late August and September may be a contributing factor to the necessity for suspending traffic in North China and Manchuria.

9. Soviet activity in Harbin reported: [redacted] who left Harbin in late 1950 states that Soviet military personnel in uniform were a "common sight" at that time, and that Soviet tank corps troops stationed in the outskirts of Harbin were being allowed to circulate in the city. The personnel of Soviet establishments in Harbin were being replaced gradually (by new officials from the USSR?), and local Chinese no longer regarded local Russians with Soviet passports as genuine Soviet citizens.

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Comment: [redacted] Harbin have reported the presence of Soviet military personnel in or outside of the city, but [redacted] have disagreed as to the branches of service represented and as to whether these forces were advisory-technical personnel or combat units. [redacted] have also reported the replacement of local Soviets by genuine Soviet citizens, and widespread discrimination against the former by both the Soviets from the USSR and the Chinese.

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10. Two Communist espionage schools reported: [redacted] the operation of an "International Espionage Training Center" in Peiping and an advanced school with the same name at Kalgan. The Peiping school is said to have 20 Soviet instructors, while most of the staff at Kalgan is reportedly Soviet. The Kalgan school has graduated 400 students, while 300 others are currently in training at the two schools. The Peiping school--which accepts only Chinese Communist Party members--teaches languages and basic intelligence operations; the Kalgan school teaches advanced operational techniques, reporting, sabotage and communications to graduates of Peiping. [redacted]

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Comment: Although unconfirmed, this report is plausible. The Peiping

TOP SECRET

TOP SECRET

regime is known to be training personnel for covert operations, especially in the Far East, and Soviet advisers and instructors are presumably attached to such enterprises. While this report implies that the "advanced" school graduated hundreds of students before the elementary school had graduated any, it is possible simply that figures were not available for the latter.

25X1C 11. Sino-Soviet joint control of three "special military districts" alleged: [redacted] under the terms of an un-specified Sino-Soviet military pact, three "special military districts" were established and are now under joint Sino-Soviet military control, although civil administration of these areas is still exclusively Chinese. The areas are allegedly the Ashan, Tsingtao and East Chekiang Special Military Districts. [redacted] 25X1C

25X1C Comment: This report appears doubtful. [redacted] frequently cite unpublished Sino-Soviet agreements allegedly providing for Soviet control, or joint Sino-Soviet control, of one or another geographical area of China. The Tsingtao area and the Ashan area of Sinkiang, among others, are believed to be of special interest to the USSR, and the Soviet position is presumably becoming stronger wherever an extensive Soviet advisory-technical mission is operating. However, except in the Port Arthur Naval Base Area, evidence is lacking of the existence of any Sino-Soviet "special military district" of the type described. 25X1

25X1 12. CHINA/KOREA. Chinese Communist chemical warfare defensive unit reported in Korea: [redacted] alleges that some 700 Chinese Communist "chemical warfare troops" were about to enter North Korea on 30 August. The unit is described as "defensive in nature." [redacted] 51) 25X1

Comment: The Communists have frequently accused the UN Command in Korea of conducting chemical warfare, and may either have become the victims of their own propaganda or be contemplating some embellishment of that propaganda. The alleged 700 CW troops would obviously be of little value in defending the 700,000 Communist troops in Korea if the UN Command were genuinely to employ CW. In any case, this report is wholly unconfirmed.

13. KOREA. Communists willing to resume cease-fire talks: A 19 September broadcast from Peiping announced Communist willingness to resume cease-fire negotiations at Kaesong. While the Communists conceded that the UN's admission of the 10 September accidental strafing of Kaesong showed sufficient good faith upon which to base a renewal of the negotiations, the broadcast proposed that the initial meeting of the resumed negotiation should deal

TOP SECRET

TOP SECRET

with "the previously mentioned unsettled incidents" and with setting up "appropriate machinery" to guarantee Kaesong's neutrality. (U FBID, Peiping, 19 Sep 51)

Comment: This broadcast indicates some modification of the previous Communist position. However, if the first order of business of the resumed negotiations is to consider "unsettled incidents," which the Communists have claimed and the UN has denied, the Communists will retain the initiative in propaganda.

14. Communists capable of expanding air operations over North Korea: Following a decline in enemy night air activity over North Korea during mid-August, the US Far East Command notes a sharp increase in such activity during the period 25 August to 19 September. While the majority of the 41 recorded observations and incidents during this period were of conventional fighters, a recently unobserved and still unidentified twin-jet aircraft, believed to be a Type-8, reappeared in a 10 September night attack on an American light bomber. Additionally, Communist MIG-9 and MIG-15 jet aircraft reportedly have been engaged in night flying within Manchuria.

FECOM estimates that if the Communists choose to commit a major part of their conventional aircraft strength in such night operations, a serious restriction of UN night-intruder air operations would result. Such a restriction would be heightened if enemy jet fighters were also committed. (S CINCEE Telecon 5175, 20 Sep 51)

15. ROK reiterates familiar stand on Kaesong talks: According to US news sources, ROK President Rhee welcomed resumption of the cease-fire talks. He said, however, that Chinese Communist troops must withdraw from Korea and North Korean troops must be disarmed. In return, the ROK would grant North Korea "full and equal representation in the (ROK) National Assembly through elections..." (U AP Ticker, 20 Sep 51)

Comment: Resumption of the negotiations will undoubtedly see a return of the previous intransigent ROK policy towards the cease-fire, as indicated by Rhee's unrealistic demands.

TOP SECRET

TOP SECRET

SECTION 3 (WESTERN)

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1.

2. FRANCE. Socialists refuse to renew electoral alliances with coalition parties: The French Socialist Party's National Council has just issued a belligerent resolution seemingly ruling out alliances with any other party in the October cantonal elections. Furthermore, the keynote address at the council meeting proclaimed the Socialists' refusal to participate in the government unless the new church-school laws are repealed. A Socialist spokesman has revealed, however, that the fight against the center parties would be subordinated to the battle against the Communists and the Gaullists, and the Socialists will not actively promote the downfall of the present cabinet. (C Paris 1718, 18 Sep 51)

Comment: The forcefulness of the Socialists' campaign against aid for church schools is enhanced by the proximity of the cantonal elections. In the face of sharp Communist competition for the labor vote and Radical Socialist competition in some areas for the anti-clerical vote, the Socialists are making a determined fight to retain their strong position in the departmental councils, where they now have 25 percent of the seats to be filled in October. The current Socialist policy of opposing the government on certain vital issues is a continuous threat to its existence, but can be expected to stop short of precipitating De Gaulle's return to power.

3. Foreign office protests Bourghiba reception in US: French Deputy Foreign Minister Maurice Schumann summoned the US Charge in Paris to express

TOP SECRET

TOP SECRET

his government's disapproval of the "official reception" of Tunisian nationalist Bourghiba by the US. Schumann fears that Bourghiba's presence and this "reception" would give great encouragement to anti-French elements in Tunisia and throughout North Africa, and would make the task of developing the North African contribution to the common defense more difficult. He added that some cabinet members were thinking of demanding a pledge from the US that, as a condition for continuing with current negotiations and surveys for North African bases, North African nationalists would not again receive such attention by US officials. (S Paris 9040, 20 Sep 51)

Comment: Although this is an example of a comparatively minor incident which could develop into serious friction between France and the US, Bourghiba's presence in Washington has actually aroused little interest either among Tunisian nationalists or in the French Residency in Tunis.

4. AUSTRIA. Re-airing of corruption charges promises partisan dispute: A Tyrolean newspaper reports that a new journal published by Peter Krauland, former Minister of Property Control and Economic Planning, will appear on 4 October. The paper, well-financed and boasting a circulation of 200,000 copies, will allegedly hit the newsstands "with enough political scandal to last a year." The first number is expected to re-open the "Krauland affair" with a documented counterattack against State Secretary Graf and Minister of Education Hürdes, both of the People's Party. Chief editor of the new weekly is Dr. Manfred Jasser, former editor of a Union of Independents' paper recently published in Graz but suspended by Occupation authorities. (FBIS, Tiroler Tageszeitung, 18 Sep 51)

Comment: The prospective appearance of a journal reflecting the views of the former Minister of Property Control and apparently connected with the Union of Independents promises a continuation of sharp partisan dissension in Austria throughout the fall. Krauland left the Austrian Cabinet last spring under charges, still "under investigation," of having utilized his administration of nationalized industries for the enrichment of his party's treasury. The beneficiary of a Krauland counterattack against the government with implications of widespread corruption will be the Union of Independents, which has strongly emphasized this issue.

5. British and US Commissioners protest Soviet interference with Allied oil properties: The US and British High Commissioners have protested to the Soviet Headquarters against interference of the Soviet Mineral Oil Administration in the operation of Anglo-American oil companies in eastern Austria. The virtually identical notes assert that Soviet control officers have been intervening in the operational control of the companies, and that the companies have been forced to deliver all crude oil, and in some instances refined oil, produced to the Soviet organization, and that they have been

TOP SECRET

TOP SECRET

forced to accept arbitrary price reductions below levels established by the Austrian Government. The protests request an immediate cessation of these unjustified measures. (S Vienna 1045, 18 Sep 51)

Comment: Long-standing disputes over the Anglo-American oil companies in question were recently aggravated when British and American negotiators objected to the Soviet Mineral Oil Administration's use of price contracts as a means of compromising claims for ultimate relief from Soviet supervision. The companies and the Allied authorities have been anxious to avoid any compromise of their position, since they do not recognize the legality of Soviet controls and regard them as far in excess of any measures required by an occupation power. Nevertheless, Soviet authorities have continued to pay the companies 18 to 20 percent less than the established prices, claiming the difference is a charge for expenses incurred in "guarding and control." The Soviet authorities have never claimed the companies as German assets, but in Allied Council discussions they have steadfastly maintained Soviet rights unilaterally to direct oil production within their zone.

6. ITALY. De Gasperi pleads for peace treaty revision to allow adequate Italian military effort: At the North Atlantic Council meeting of 17 September in Ottawa, Italian Prime Minister de Gasperi referred to his country's position in a zone of immediate danger and said "even if Italy's economic ills are overcome, the peace treaty limitations would inhibit the Italian defense effort." However, he outlined plans to meet present military commitments on time and indicated that over-all Italian military planning provided for future force levels in excess of treaty limits. He again pointed out Italian concern that an acceptable method be found for financing a Western European army, and reiterated the necessity for German participation in such an army.

De Gasperi called for a "democratic offensive," and urged that "the West should have a dynamic propaganda policy." He asked for the utilization of Italian idle manpower and industrial facilities in the Western European defense effort. (C Ottawa SECTO 12, 17 Sep 51)

Comment: De Gasperi's statements reflect the major Italian foreign policy objectives with the exception of the Trieste issue. This is the first time, however, that the Italians have officially indicated that they are actually planning for forces in excess of treaty limitations. [redacted] reported for some months that the Italian armed forces have been steadily built up beyond peace treaty levels.

7. UNITED KINGDOM. Anglo-Iranian Oil Company buys oil from Rumania: Two hundred thousand tons of Rumanian oil have been purchased by the Anglo-Iranian Oil Company for slightly over one million pounds sterling. The oil will be

TOP SECRET

TOP SECRET

shipped to bunkering ports in the Mediterranean and Red Sea in tankers controlled by the purchasing company. (U NY Times, 20 Sep 51)

Comment: Over a month ago an offer along similar lines was made by the USSR, and a representative of the British Ministry of Fuel and Power stated that it had no objections. This transaction will not only help the Anglo-Iranian Oil Company to provide oil for customers ordinarily served from Iran, but will also be advantageous to the Rumanians who have had difficulty transporting their oil because of the Orbit tanker shortage.

8. NORWAY. Government will attempt to reduce strategic exports to Czechoslovakia: In negotiating a new Czechoslovakian trade agreement Norway will in general try to retain last year's trade pattern; but it will offer no aluminum, ilmenite or ferroalloys, and it will offer a smaller quantity of pig iron. Norway will also suggest that sugar imports be reduced to retain the four-to-one ratio of imports of sugar to exports of hard goods. Norway believes that this ratio would be economically advantageous, since it would otherwise have to use dollars to acquire sugar elsewhere. The foreign office, however, is doubtful that Czechoslovakia will accept an agreement which does not include aluminum or ferroalloys, and has asked US approval for including small quantities of these commodities if necessary in order to reach agreement. (S Oslo 282, 18 Sep 51)

Comment: While any additional dollar drain is important, the obtaining of sugar from dollar or sterling sources would not critically impair the Norwegian economy. However, Norway feels that, aside from the economic advantages of such a trade agreement, a break in formal trade relations would be undesirable politically following the failure to consummate an agreement with Poland and preceding renewed negotiations for an agreement with the USSR.

9. DENMARK. Faroe Islanders oppose establishment of naval station: The US Embassy at Copenhagen reports that the press in the Faroe Islands vigorously protested against the possibility of a Danish naval station in the islands. All local political parties, and especially the Independence Party, oppose the military use of the islands even under the North Atlantic Treaty. (R Copenhagen Joint Weeka 36, 7 Sep 51)

Comment: The location of the Faroe Islands north of Scotland between Norway and Iceland gives them an importance for NATO naval defense plans. Although Denmark in 1948 granted the islanders considerable autonomy in local affairs, nationalist sentiment still remains strong. Many Faroese would regard the establishment of a naval station, even as a NATO unit, as a feeble disguise for a resurgence of Danish influence and interference in local affairs. The Danish Government is reluctant to exert any strong influence even in those matters where it legally may do so.

TOP SECRET

TOP SECRET

10. SWEDEN. Swedes fear "iron ring" around iron curtain: The US Embassy in Stockholm reports that "some Swedish quarters" view with misgivings the speed with which the US is regarded as driving home settlements with its former enemies. Sweden's largest Social Democratic newspaper, Aftontidningen, states that an "iron ring" is thus being wrought around the iron curtain with Sweden the only opening, and that the burning question is what will the Russians do in response. (R Stockholm 349, 17 Sep 51)

Comment: Many Swedes, alarmed by the growing division of the world into two irreconcilable camps, believe that Sweden should cling to its traditional role of maintaining contact with both. The Swedes favor western rearmament, cohesion and firmness, and they regard appeasement as fruitless; but at the same time they fear that western determination coupled with Russian intransigence may make war inevitable.

11. ARGENTINA. Communists told to vote for Peron in November elections: Pro-
25X1C Communist students of the University of Buenos Aires [redacted] 25X1
[redacted] Argentine Communists are now being told by their
25X1C leaders to vote for President Peron in the November 1951 elections. (S
[redacted])

Comment: This would be in accord with previous indications that Communists in Argentina feel that they can make greater political gains by working to strengthen their position within the labor unions under the guise of Peronismo. This is facilitated by the similarity between the Peronista anti-imperialist, "third line" neutrality propaganda and the Communist anti-US "peace" objectives. While other parties, including the Radicals, have adopted similar lines, the Peronistas are by far the strongest. On the international front the Peronistas have furthered Communist aims by continuing to trade with the Satellites.

12. BRAZIL. Uprising in the State of Maranhao: Maranhao's Governor Barros is reported to be a "virtual prisoner in his palace as armed revolt swept the area." The uprising is headed by Raimundo Bastos, a young lawyer, who said in a manifesto that "12,000 farmers are in arms. . . we shall surrender our arms only through federal intervention." (U Washington Post, 21 Sep 51)

Comment: The Maranhao state government has been unstable since Barros was elected last October. Earlier this year he was forced to leave the state in the hands of the president of the state congress, Cesar Aboud, as the result of armed riots. Barros returned to Maranhao this week after the Supreme Electoral Tribunal adjudged him the winner of the election which had been contested by the opposition candidate, who lost by only about 700 votes and who charged Barros' party with fraud.

TOP SECRET

TOP SECRET

Federal troops, under General Azevedo Pinto, Commander of the Tenth Military Region, are patrolling the capital, and order has been restored, at least temporarily.

Whether President Vargas will resort to intervention, a tactic used by him during his dictatorship to control the state governments, is not yet known. The constitution permits him to intervene "to guarantee the free exercise of any of the state powers," or "to assure the execution of a judicial order or decision."

13. CUBA. President Prio denies rumors of his resignation: In a radio address to the Cuban people, President Prio emphatically denied rumors that he would resign. He accused the Communists of starting rumors designed to create confusion and unrest in order "to strike at US production through the Cuban rear guard." He pointed to his lifelong record in defense of democracy and to his patience in the face of opposition insults. In answer to the charges that he intended to establish a dictatorship, he added that he "would use the power of the government to prevent further abusive civil liberties in order to save the country from chaos." (U Havana 210, 19 Sep 51)

Comment: The rumors that President Prio has resigned and that a cabinet "crisis" is expected momentarily have been current throughout Havana and are being published by the press. Apparently the political opposition has spread these rumors to create general unrest. The president's flat denial of these rumors and his statement that "only death will prevent me from leaving the palace before the time set forth by the constitution" will do much toward restoring tranquillity. The cabinet "crisis" constitutes merely a reorganization of the cabinet as a prelude to the 1952 presidential elections.

14. PANAMA. Negotiations for US lease of San Jose Island impeded by weak character of present Panama administration: US Ambassador Wiley reports that an administrative petition in the National Assembly for permission to conclude a lease with the US Government for San Jose Island would have a fair prospect of obtaining approval although perhaps not quickly nor easily. Difficulties in securing approval are expected to stem from the fact that, with national elections in the offing, a weak government is faced with an equally weak opposition, and both sides lack qualified leaders or issues with popular appeal. (S Panama City 267, 19 Sep 51)

Comment: It is entirely possible that the opposition would attempt to make political capital of the San Jose Island question, although US-Panama relations have been greatly improved since the rejection of the 1947 defense-sites agreement.

TOP SECRET

TOP SECRET

15. URUGUAY. Cabinet favors an offer of two destroyer escorts and a regimental combat team for UN service: The cabinet on 19 September unanimously approved the offering of two destroyer escorts — about to be purchased from the US — for the common defense of the Western Hemisphere and for Unified Command service pursuant to the UN "Uniting for Peace" resolution. Further, the cabinet approved the "organizing, equipping, and training of a regimental combat team of ground troops for UN service." A letter to this effect is being forwarded to the UN Secretary-General. (S Montevideo 115, 19 Sep 51)

Comment: The Uruguayan Constitution requires that Congress approve the departure of national forces from the republic. Colombia is thus far the only Latin American country to have supplied troops to the UN.

TOP SECRET

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TOP SECRET

21 September 1951

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TOP SECRET

TOP SECRET

SECTION 1 (SOVIET)

1. USSR. US proposes new approach to Austrian treaty question: The Department of State plans to make a new attempt to obtain Soviet agreement on an Austrian state treaty after first obtaining an agreed Western position. It was proposed, presumably at the recent Washington Foreign Ministers' conference, that the deputy ministers meet to ascertain the terms on which the Soviet representatives would conclude the present draft treaty. In the event of Soviet intransigence, the three Western powers will propose to Moscow, through diplomatic channels, an abbreviated treaty consisting of certain articles already agreed upon from the present draft treaty and one new article changing the agreed position on German assets.

If the USSR accepts a new abbreviated treaty text, British and French concurrence will be obtained for the retention of Western occupation forces until the Austrian security forces are sufficiently equipped and trained to maintain internal security. (TS, S/S to Vienna 657, 10 Sep 51).

Comment: Austrian officials have been anxious to raise the treaty question at this time. Although Austrian Foreign Minister Gruber has expressed interest in an alternative plan for the state treaty, he has not yet been informed of the plan or content of the abbreviated treaty.

The Soviet Political Adviser in Vienna has recently pointed out that the obstacles to treaty agreement are the questions of Trieste and the remilitarization of Austria. There has been no evidence that the USSR is prepared to compromise on these questions.

2. TRIESTE. Allied Military Government requests continued ECA allocations for Trieste: The US Political Adviser in Trieste requested reexamination of a recent ECA decision to discontinue aid to Trieste for the fiscal year 1952. Originally it had been planned that Trieste would receive some ECA aid in 1952 either directly or through ECA's Italian program. In order to avoid making Trieste subject to Italian economic control, the Allied Military Government has maintained that at least some aid should continue to be supplied by ECA directly. (C, S/S Trieste 317, 18 Sep 51).

Comment: Trieste heretofore has received financial assistance from the Italian Government and ECA. Discontinuation of all ECA aid will increase Trieste's economic dependence upon Italy and encourage further Italian efforts to increase their authority in the Zone at the expense of the Allied Military Government. Furthermore, since the Yugoslav Government might interpret the discontinuance of ECA aid as evidence that the Western powers are seeking to strengthen Italy's position in Zone A, the action may cause a further hardening of the Yugoslav position toward a bilateral settlement of the Trieste issue.

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SECTION 2 (EASTERN)

3. IRAN. Iranian Shah gloomy over situation: In an interview with the British Ambassador, the Shah was very pessimistic over the future of Iran under Prime Minister Mossadeq, and said that the removal of the prime minister would be most difficult. The Shah stated that Mossadeq desires to resume negotiations and inquired what steps the British considered necessary.

The British Ambassador replied that his government would require "written assurances that the Iranian Government was ready to negotiate seriously in a spirit of goodwill." Oral assurances by the Shah were not considered sufficient. (TS, S/S Tehran 1080, 19 Sep 51).

Comment: The Shah has played no part in the oil negotiations to date. He has lost considerable prestige and does not exert any discernible influence on Mossadeq.

While Mossadeq is aware of the increasing economic and political pressures which are building up against him, and even though he desires to reopen negotiations, there is no indication that he is ready to make any significant change in his position.

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